

KING COUNTY, WASHINGTON
January 1, 1993 Through December 31, 1993

Schedule Of Findings

1. County Officials Should Improve The Internal Control Procedures Over The Receipting System At The Department Of Development And Environmental Services

Officials of the Department of Development and Environmental Services (DDES) need to improve internal control procedures over their receipting system. DDES maintains a receipting system for the collection of permit fees. Invoices are produced for various permit fees, those fees are collected on site, receipted in, and entered into the accounting records.

Upon review of the department's receipting procedures, the following conditions were noted:

- Segregation of Duties

The cashier receives money for permit fees, records the transaction in the SIERRA accounting system, and reconciles the receipts at the end of day. The receipt, recording, and reconciliation functions are incompatible and would present an individual with the opportunity to perpetrate and conceal fraudulent activity without detection or would allow inadvertent errors or irregularities to occur and not be detected in a timely manner.

- Restrictive Endorsements

The cashier directly receives mail which contains checks for permit fees. The cashier does not restrictively endorse checks to prevent further negotiation. Other departments receiving mail containing checks for permit fees do not restrictively endorse checks. Unrestricted checks are easier for unauthorized persons to cash. Further, restrictive endorsement deters theft and fraudulent negotiation.

- Undeposited Checks

On the audit date, there were checks on hand which had been received between two and fifty-nine days earlier. These checks had not been accounted for in the SIERRA system or credited to the applicant's account. Daily deposits which reconcile and account for cash received assist in preventing undetected theft.

- Original Source Documents Not Retained

Documentation of the original transaction was not retained intact as supporting documentation to the transaction. The permit technician prints a three-copy invoice which outlines charges for the fee. The retention of one copy which agrees to the cash received would provide substantiating documentation, thereby reducing the risk transactions entered in the SIERRA accounting system would be altered after input.

- Computer Access

Access to terminals which produce invoices was not limited to a person, area, or department. Limiting access to the terminals which record cash transactions, and printers which produce permit fee invoices, to a person(s) or place(s) provides accountability and a means by which to trace a transaction to an individual. This deters the entering of fraudulent transactions or altering correct transactions.

The department's internal control procedures are not sufficient to ensure errors or irregularities will be detected in a timely manner, or that cash received will be properly recorded, deposited, and reconciled. There are no segregation of duties between related functions; restrictive endorsement of checks; reconciliation of cash to contemporaneously produced documentation; or adopted system controls which would limit access to input screens and increase accountability of the technicians/staff.

As a result, funds could be misappropriated and not be detected in a timely manner. Inadvertent errors or irregularities could occur and not be detected or corrected.

We recommend county officials improve internal control over the receipting function by considering the following:

- a. Establish adequate segregation of duties between the related accounting functions of receiving money, recording the transaction, and reconciling the receipts.
- b. Restrictively endorse all checks upon receipt.
- c. Deposit all checks received daily.
- d. Retain one copy of the permit fee invoice as supporting documentation to the daily deposit and incorporate this in the reconciliation process.
- e. Limit computer access to the receipting system to only those areas or employees who require access.

2. County Officials Should Actively Pursue Collection Efforts For Delinquent Accounts Receivable To Ensure Civil Penalties Incurred By Code Enforcement Violators Will Be Collected

The Department of Development and Environmental Services, Environmental Section, Code Enforcement Division (CED), is not actively pursuing collection of delinquent accounts receivable for civil penalty violations. The CED has the authority to enforce King County codes for building, land use, and the environment. The CED is authorized to assess civil penalties against violators by issuing an appropriate Notice and Order. In some instances, the CED can abate (bring violation to code) at the violator's expense.

It is the responsibility of the CED to file appropriate Notice and Order, bill the violator, and pursue legal action with the assistance of the King County Prosecuting Attorney's Office for the collection of civil penalties.

Our tests, which covered 43 percent of the total civil penalties billed and 31 percent of the waivers granted in 1993, indicated the following:

- Collections

Collection efforts were limited and inconsistent. Two of seven files were not billed timely, twelve and seventeen months late, respectively. The probability of collection is greatly reduced without timely and consistent billing procedures.

- Billings

Billing errors had been made which diluted the legal bases on which to pursue collection. Three of seven files tested billed for amounts which were later determined to be incorrect: the Notice and Order stated the penalty was \$100 per day, when in fact it was \$25; the site inspector was incorrect and there was no violation; and the billing was for the incorrect code violation. One file contained procedural errors and one half of the penalty, \$5,500, was waived. Violators will be less likely to remit payments if they believe the billing is incorrect.

- Judgments

Legal judgments for collection had not been pursued with the intent to collect. One file contained a judgment for \$16,400, effective on October 31, 1992. No further documented action to pursue collection had been taken. The failure to collect penalties undermines the authority of the county to pursue violators of the county codes.

- Waivers

Documentation for waivers (fee reduction and/or debt forgiveness) was not provided in the file. Six of seven files contained waivers which were granted to violators. None contained sufficient supporting documentation to determine the criteria or basis for the waiver. Four of six files for which waivers had been granted did not contain signed and dated authorization by the CED manager. Failure to document waivers granted may raise the question they were done so without consideration on an equitable nondiscriminatory basis.

The *Constitution of the State of Washington*, Article VIII, Section 7, states in part:

No county . . . shall hereafter give any money, or property, or loan its

money, or credit to or in aid of any individual, association, company, or corporation

CED officials have not placed the appropriate amount of emphasis on addressing the weaknesses in their collection procedures. It appeared that procedures were inadequate, and did not compensate or consider the fact that each case is unique and methodologies for collection may not be uniform. Additionally, responsibilities for pursuing collection may not be clearly defined between CED and the prosecuting attorney's office.

The CED, by not pursuing its legal responsibility to collect civil penalties from violators, is extending the credit of the county without authorization.

We recommend county officials actively pursue collection efforts of delinquent accounts receivable for penalties and abatement expenses to fulfill its authorized responsibility of assessing and collecting civil penalties.

We also recommend review procedures be implemented to ensure that violators are billed correctly for violations.

We further recommend waivers granted be supported with adequate and appropriate documentation.

3. King County District Court Officials Should Maintain Accurate Control Accounts Over Accounts Receivable

King County District Court officials do not maintain accurate control accounts summarizing the accounts receivable due. The accounts receivable detail reports produced by the district court's computerized accounting/information system (DISCIS) do not balance to the general ledger summary report. The DISCIS accounting system is prescribed by the Washington State Office of Administrator for the Courts (OAC).

OAC is and has been aware the system does not produce accurate accounts receivable control totals. To date, OAC officials have failed to commit the necessary resources to resolve this deficiency in their prescribed accounting system; nor have King County District Court officials maintained any alternative method of control over these accounts receivables.

The absence of accurate control accounts increases the risk of errors or irregularities occurring and not being detected in a timely manner. Consequently, we consider the absence of accurate control accounts to be a material weakness in controlling accounts receivables.

We recommend King County District Court officials maintain accurate accounts receivable control accounts and reconcile all receivables to the control accounts on regular intervals.

We also recommend King County District Court officials work with OAC officials to resolve the weaknesses identified in the prescribed accounting system.

4. Public Funds Were Misappropriated And Accounting Records Were Falsified In The King County District Court

Our audit of the financial records of the King County District Court-Federal Way Division revealed at least \$2,744 in public funds was misappropriated by a court cashier during the period November 30, 1992, through April 16, 1993. Accounting records were falsified in an attempt to conceal these losses. There were no federal funds involved in this case. These funds were misappropriated as described below.

Unrecorded cash collections were taken by a court cashier. Customer payments to the court were not receipted, recorded in computer records, or deposited in the court's bank account. However, the court cashier entered fictitious or unsupported noncash credits into the computer system for these transactions. A corresponding amount of cash was then misappropriated.

During the period of this loss, the court cashier was responsible for processing cash receipt transactions and entering these payments into the court accounting system. When the district court administrator discussed these irregularities with the cashier on October 27, 1993, she was unable to provide an explanation for the missing funds. The cashier was placed on administrative leave pending investigation of the matter and subsequently resigned prior to termination proceedings.

RCW 42.20.070 states:

Every public officer, and every other person receiving money on behalf or for or on account of the people of the state or of any department of the state government or of any bureau or fund created by law in which the people are directly or indirectly interested, or for or on account of any county, city, town, or any school, diking, drainage, or irrigation district who:

(1) Shall appropriate to his or her own use or the use of any person not entitled thereto, without authority of law, any money so received by him or her as such officer or otherwise; or

(2) Shall knowingly keep any false account, or make any false entry or erasure in any account of or relating to any money so received by him or her; or

(3) Shall fraudulently alter, falsify, conceal, destroy or obliterate any such account; or

(4) Shall wilfully omit or refuse to pay over to the state, its officer or agent authorized by law to receive the same, or to such county, city, town, or such school, diking, drainage or irrigation district or to the proper officer or authority empowered to demand and receive the same, any money received by him or her as such officer when it is a duty imposed upon him or her by law to pay over and account for the same, shall be punished by imprisonment in a state correctional facility for not more than fifteen years.

The following internal control weakness allowed these misappropriations to occur and not be detected in a timely manner.

District court supervisory personnel rarely authorized or approved noncash credit

transactions processed by cashiers. The computer accounting system is capable of providing daily lists of all noncash credit transactions for review. However, we found no evidence to indicate that these lists were requested or used to verify that all such transactions were properly supported by written documentation from an independent and authorized source. Thus, a single court cashier could misappropriate funds by processing invalid noncash credit transactions without being detected by court officials.

King County has a personnel dishonesty bonding policy for all employees. However, this loss was not covered by the bonding company because it was less than the deductible provision of the policy.

We recommend King County seek recovery of the misappropriated \$2,744 and related audit/investigation costs.

We further recommend the Washington State Office of the Attorney General and the King County Prosecuting Attorney review this matter and take whatever action is deemed necessary under the circumstances. Any compromise or settlement of this claim must be approved in writing by the Attorney General and State Auditor as directed by RCW 43.09.260.

We also recommend the district court establish procedures to review, authorize, or approve noncash credit transactions recorded by cashiers.

5. Client Funds Were Misappropriated In The Division Of Alcoholism Substance Abuse Services

Our audit of the financial records of the King County Division of Alcoholism Substance Abuse Services (KCDASAS) revealed that at least \$2,828.36 in client funds was misappropriated from the protective payee account in the System Alliance Services Program during the period December 1, 1991, through January 31, 1993. There were no federal funds involved in this case.

On December 10, 1993, KCDASAS officials notified the Office of State Auditor that their internal investigation had confirmed this misappropriation of funds. During our audit, we reviewed the work performed by KCDASAS and agree with their findings and conclusions. The schedule below summarizes these losses:

<u>Description of Loss</u>	<u>Amount</u>
Overdrawn or Uncollectible Client Accounts	\$ 91.36
Client Collections Not Deposited	706.00
Unauthorized Checks Issued on Behalf of Clients	1,379.00
Forged Signature on Issued Client Check	<u>652.00</u>
Total Losses	2,828.36
Less: Bank Restitution for Forged Check	<u>(652.00)</u>
Net Loss Amount	<u>\$2,176.36</u>

These funds were misappropriated as described below.

- a. Client accounts were not adequately monitored and record keeping procedures in place were not enforced by KCDASAS. As a result, the following conditions were noted during the period December 1, 1991, through June 30, 1992:
 - (1) Client accounts were overdrawn or uncollectible.
 - (2) While case file documentation included references to cash collections on behalf of clients, these funds were not recorded in logbooks or subsequently deposited in the bank.
 - (3) Unauthorized checks were issued on behalf of clients.
 - (4) These irregularities were concealed through erroneous bank reconciliations and removal of records from the office.
- b. The practice of presigning dual signature checks was allowed. This procedure allowed an employee to misappropriate \$652.00 by forging the second signature on a check reportedly issued on behalf of a client on December 14, 1992. After cashing the check, this employee stole these funds and used them for their own personal gain. When this unauthorized transaction was detected on January 6, 1993, the bank made restitution to KCDASAS for the loss. While the employee responsible for processing this unauthorized transaction was arrested, the case was subsequently placed on "inactive" status, as the costs to prosecute would likely exceed the cost of the loss. This employee's employment with KCDASAS was subsequently terminated.

Numerous employees had unrestricted access to client and bank account records. Numerous employees were also performing incompatible functions. As a result, with the exception of the forged check indicated above, responsibility for these losses could not be fixed to any single individual.

In addition, KCDASAS officials did not promptly notify the Office of State Auditor of these losses of funds.

RCW 42.20.070 states:

Every public officer, and every other person receiving money on behalf or for or on account of the people of the state or of any department of the state government or of any bureau or fund created by law in which the people are directly or indirectly interested, or for or on account of any county, city, town or any school, diking, drainage, or irrigation district who:

(1) Shall appropriate to his or her own use or the use of any person not entitled thereto, without authority of law, any money so received by him or her as such officer or otherwise; or

(2) Shall knowingly keep any false account, or make any false entry or erasure in any account, of or relating to any money so received by him or her; or

(3) Shall fraudulently alter, falsify, conceal, destroy or obliterate any such account; or

(4) Shall wilfully omit or refuse to pay over to the state, its officer or agent authorized by law to receive the same, or to such county, city, town or such school, diking, drainage or irrigation district or to the proper officer or authority empowered to demand and receive the same, any money received by him or her as such officer when it is a duty imposed upon him or her by law to pay over and account for the same, shall be punished by imprisonment in the state correctional facility for not more than fifteen years.

The following internal control weaknesses allowed this misappropriation of client funds to occur and not be detected in a timely manner.

- a. There were inadequate segregation of duties. Numerous employees had unrestricted access to all client records. This access included the functions of receiving cash collections, making check disbursements, recording information in client subsidiary records, and reconciling the bank account. As a result, responsibility for these losses could not be fixed to any single individual.
- b. The monthly bank account was not reconciled accurately or in a timely manner.
- c. The protective payee control account was not reconciled with client subsidiary records.
- d. Checks were presigned by one of the authorized signers on the bank account.
- e. Client case management notes for cash collections and check disbursement transactions were incomplete.

- f. All cash collection transactions were not consistently logged-in and recorded in client records.
- g. Client records were not adequately safeguarded. As a result, cancelled checks were removed from the premises without the knowledge or approval of KCDASAS management officials. In addition, the pages of the receipt logbook were not prenumbered or controlled, which caused missing logbook pages to go undetected.

King County has a personnel dishonesty bonding policy for all employees. However, this loss was not covered by the bonding company because it was less than the deductible provision of the policy.

We refer this matter to the King County Prosecuting Attorney for review and any further action deemed appropriate under the circumstances. Any compromise or settlement of this claim must be approved in writing by the Attorney General and State Auditor as directed by RCW 43.09.260.

We recommend King County Division of Alcoholism Substance Abuse Services:

- a. Review overall accounting controls, correct the weaknesses identified above, and implement an effective system of internal control designed to ensure the protection of client and county assets.
- b. Promptly notify the Office of State Auditor of all losses of funds.

6. King County Officials Should Improve Accounting And Internal Control Procedures Over "In House" Cash Accounts

Accounting and internal control procedures governing various "in-house" cash accounts throughout the county need to be improved. Several King County departments operate, either formally or informally, "in-house" cash accounts to account for client generated revenues and the related expenditure of those funds. During 1993, we visited several of these sites and noted internal control weaknesses in the operations of these accounts. These conditions are outlined as follows:

North Rehabilitation Facility

Management of the North Rehabilitation Facility maintains an inmate recreation fund for the purpose of providing program service items for inmates other than mandatory food and shelter. Accounting and internal controls over the administration of this account need to be improved. Accounting and internal control weaknesses noted included:

- Segregation of Duties

One person controlled the receipt of funds, prepared, recorded, and made deposits to the account, assembled and prepared all supporting documentation for payments, posted checks to the check register, and performed the bank reconciliation. Many of these functions are incompatible and would present an individual with the opportunity to perpetrate and conceal fraudulent activity without detection or would allow inadvertent errors or irregularities to occur and not be detected in a timely manner.

- Purchasing Policy and Procedures

Policies did not clearly define what the purpose of these funds were to be used for. Additionally, several instances were noted where King County's purchasing guidelines were violated. Examples include two purchases of chairs which totaled \$28,172 and the purchase and installation of a public address system for \$5,010. These purchases exceeded county established limits which would require formal purchasing procedures to have been used. These procedures would include bidding the items and properly classifying the items as capital equipment in the county's accounting records.

- Budget and Accounting Records

The activity of this recreation fund is recorded in a check register but it is not recorded or reflected in the county's general ledger accounting system. In 1993, revenues of \$91,603 and expenditures of \$64,319 flowed through this account. Additionally, a check for \$52,876 was written to cover 1993 over expenditures in the department's general ledger accounts. This practice essentially results in the use of an off-line account to balance the department's budget.

Cedar Hills Alcohol Treatment (CHAT) Facility

Management of the CHAT facility maintains an "in-house" account for the purpose of enhancing the facility or for the benefit of program clients. The "in-house" account has never been officially authorized by division management. Management also keeps an account for personal funds of clients in the program. These moneys are kept as cash on site in the safe as are the "in-house" funds. Accounting and internal control weaknesses noted included:

- Segregation of Duties

One person controlled the receipt of funds, cashed checks, recorded transactions on ledger sheets, maintained all supporting documentation for payments, had access to the safe, and performed the reconciliations of the accounts. Many of these functions are incompatible and would present an individual with the opportunity to perpetrate and conceal fraudulent activity without detection or would allow inadvertent errors or irregularities to occur and not be detected in a timely manner.

- Reconciliations

The reconciliation process for the above accounts is not adequate. The cash and book amounts for the in-house funds never balanced. Discrepancies ranged from (\$108.47) to \$161.73. While these differences were noted, there was no investigation of the causes.

- Safekeeping

All funds are kept in cash in the safe. Balances on hand for the in-house account generally ranged between \$2,000 and \$3,000. Because of the liquidity of cash, the amount on hand, multiple persons having access to the safe, and the weaknesses in the reconciliation process as noted, the controls are not adequate to safeguard these funds from loss.

- Purchasing Policy and Procedures

Policies did not clearly define what the purpose of these funds were to be used for, merely that their use benefit the facility or the program clients. Additionally, several instances were noted where King County's purchasing guidelines were violated. Examples include purchases of a sound system for the facility which totaled \$5,387 as well as purchases of televisions, VCRs, etc. For items such as these, formal purchasing procedures should have been used, and the items, if applicable, should be capitalized. Instances of expenditures were also noted which did not benefit the facility or the clients such as refreshments for staff meetings.

- Accounting Records

The activity of this account is recorded on ledger sheets but it is not recorded or reflected in the county's general ledger accounting system. Only year-end balances are entered into the county's records. These balances do not reflect any of the intervening activity which occurred. During 1993, the in-house account had revenues of \$14,041 and expenditures of \$16,250.

Assessment Center (ADATSA)

The Assessment Center maintains a protective payee account for patient funds. In general, the controls over this account appeared to be strong. However, the account was not established in accordance with county policy. When this was brought to management's attention, they agreed to seek appropriate authorization.

Department of Adult Detention

The Department of Adult Detention maintains an inmate welfare fund to account for

inmate generated revenues and their related expenditures. In general, internal controls over these funds appeared to be strong. However, there is no mechanism in place to record this activity in the county's general ledger system. During 1993, \$440,391 of income flowed through this account. This activity should be reflected in the county's accounting records.

The cause for many of the items noted appeared to be a lack of awareness of appropriate county policies and procedures by departmental personnel. In addition, some of the sites lacked staff to fully segregate all incompatible duties. Finally, many of the accounts evolved over the years without adequate thought about the authorization or control environment.

Chapter 6, Paragraph 51, of the *Government Auditing Standards* define internal controls as:

... the plan of the organization and methods and procedures adopted by management to ensure that its goals and objectives are met; that resources are used consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

Inadequate systems of internal controls could present individuals with the opportunity to perpetrate and conceal fraudulent activity without detection or would allow inadvertent errors or irregularities to occur and not be detected in a timely manner. Failure to follow established purchasing practices could lead to violations of bid laws, overpaying for goods or services, favoritism in vendor selection, and inaccurate recording in the accounting records.

We recommend county officials identify and review the activity of all county "in-house" accounts to determine if their existence is appropriate; if accounting and internal controls surrounding the use of these accounts are adequate to safeguard the assets from loss; that revenue and expenditure activity be recorded in the county's general ledger where appropriate, and procedures be in place and followed for appropriate establishment and operation of such accounts.

We also recommend county officials review the sources of revenue to determine the appropriateness of allowing departments to keep and use for their own discretion.

We further recommend appropriate actions be taken to improve internal controls as deemed necessary at the above mentioned sites.

7. Public Funds Were Misappropriated And Accounting Records Were Falsified In The Seattle Division Of The King County District Court

As a result of allegations made and the investigations which ensued, it was determined that at least \$2,825.35 was misappropriated by Seattle District Court Judge John G. Ritchie during the period November 1988 through December 1991. During our audit we reviewed the findings of the Judicial Conduct Commission and agree with their conclusions. There were no federal funds involved in this case. These funds were misappropriated as described below.

(a) Between January 1989 and December 1991, Judge Ritchie made at least 116 personal long distance phone calls using the county's telephone system. The cost of telephone calls totaled \$171. Judge Ritchie did not reimburse King County at the time these calls were made.

(b) Between November 1988 and November 1991, Judge Ritchie submitted and certified travel expense claims totaling \$2,654.35 for court related business allegedly conducted during his personal travels. The following schedule details these losses:

<u>Year</u>	<u>Destination</u>	<u>Air Fare</u>	<u>Lodging</u>	<u>Days</u>	<u>Car Rental</u>	<u>Total Claimed</u>
1988	Florida	\$ 360.00	\$236.16	5	\$161.31	\$ 757.47
1989	Florida	276.00	256.65	6	-	532.65
1990	Florida	300.00	471.40	11	187.67	959.07
1991	Arizona	<u>258.00</u>	<u>-</u>		<u>147.16</u>	<u>405.16</u>
Total		<u>\$1,194.00</u>	<u>\$964.21</u>		<u>\$496.14</u>	<u>\$2,654.35</u>

The signature line on the certification of the expense claim states:

I hereby certify under penalty of perjury that this is a true and correct claim for necessary expenses incurred by me and that no payment has been received by me on account thereof.

During the fact finding hearing, Judge Ritchie admitted that, with respect to the travel expenses claimed as outlined above, no formal conferences were held nor did he attend any organized meeting of any kind on these trips.

The conclusion reached by the Judicial Conduct Commission stated:

Judge Ritchie's claimed judicial business in connection with the trips at issue was minimal at best, systematic, and wholly incidental to the personal nature of the trips.

When considering the sanctions to be imposed, the commission wrote:

Respondent's conduct is not an isolated instance; rather, it entails multiple offenses occurring over a five-year period evidencing a pattern of misconduct. The nature of the Respondent's misconduct is extremely serious, involving dishonesty and conversion of public funds in the sum of approximately \$2,750.00 for his private use or benefit in discrete annual transactions over a period of five years.

The King County Prosecuting Attorney's Office issued a press release dated May 5, 1994, regarding this matter. The Prosecuting Attorney believes that the criminal charge which most accurately reflects the conduct in this case is Official Misconduct,

RCW 9A.80.010 states in part:

(1) A public servant is guilty of official misconduct if, with intent to obtain a benefit . . .

(a) He intentionally commits an unauthorized act under color of law . . .

(2) Official misconduct is a gross misdemeanor.

RCW 9A.20.021 states in part:

. . . (2) Every person convicted of a gross misdemeanor defined in Title 9A RCW shall be punished by imprisonment in the county jail for a maximum term fixed by the court of not more than one year, or by a fine in an amount fixed by the court of not more than five thousand dollars, or by both such confinement and fine

The King County Prosecuting Attorney noted in their press release that the two-year statute of limitation for this crime had elapsed, which precluded the filing of charges.

The Prosecuting Attorney's Office also concluded that there was not enough sufficient credible evidence to support the filing of theft charges.

The press release indicates that RCW 3.58.040 permits reimbursement of "reasonable" travel expenses when "engaged in the business of the court . . ." However this statute does not define "reasonable" expenses or "business of the court."

The conclusion states:

The vagueness in this statute significantly undermines our ability to prove beyond a reasonable doubt that Judge Ritchie obtained reimbursement of these trips with criminal intent.

Filing standards for the office of King County Prosecuting Attorney state that theft charges should be filed if the admissible evidence is of such convincing force as to make it probable that a reasonable and objective fact finder would convict after hearing all of the admissible evidence and the most plausible defense that could be raised. Given the proof problems as outlined above, this case fails to meet the filing standards.

Accordingly, theft charges were not filed.

For purposes of our audit, it is normal in cases involving false certification of expense claims to consider the charge of perjury. The press release issued made no mention of this charge.

RCW 9A.72.030 states:

(1) A person is guilty of perjury in the second degree if, with the intent

to mislead a public servant in the performance of his duty, he makes a materially false statement, which he knows to be false under an oath required or authorized by law.

(2) Perjury in the second degree is a class C felony.

RCW 9A.20.021 states in part:

(1) Felony. No person convicted of a classified felony shall be punished by confinement or fine exceeding the following:

(c) For a class C felony, by confinement in a state correctional institution for five years, or by a fine in an amount fixed by the court of ten thousand dollars, or by both such confinement and fine.

The Judicial Conduct Commission ordered Judge Ritchie to be removed from office and to make full restitution to King County for travel expenses incurred and telephone calls. The State Supreme Court upheld the commission's censure order. As ordered, full restitution of \$2,750 was remitted to the King County Prosecuting Attorney's Office on May 3, 1994.

The following internal control weaknesses allowed these misappropriations to occur and not be detected in a timely manner.

- a. There was no policy in place detailing or defining appropriate judicial travel, nor did RCW 3.58.040 define "reasonable" travel expenses or "business of the court."
- b. Requests for travel reimbursements were submitted to and approved by the court administrator. The court administrator is an employee of the judge and serves at his leisure. This clearly prevented these irregular travel reimbursements from being reviewed with the appropriate scrutiny.
- c. Additionally, as an elected public official, Judge Ritchie was in an unsupervised position. He possessed unsupervised authority to plan and approve his own "business" activities and claim reimbursements that greatly exceeded any possible benefit to the district court.

King County has a personnel dishonesty bonding policy for all employees. However this loss was not covered by the bonding company because it falls within the deductible provisions of the policy.

We recommend that the court require all judge's claims be reviewed and approved by the presiding judge prior to payment.

We further recommend the district courts develop travel and expense reimbursement policies defining appropriate travel expenses for business of the court. These policies should include provisions for preapproval of all claims by the presiding judge.

We also recommend that the King County Prosecuting Attorney's Office take whatever action is deemed necessary on the charge of perjury.

8. King County Officials Should Adopt A Whistleblower Policy As Required By State Law

King County officials have not adopted or implemented policies or procedures for investigating whistleblower complaints as required by state law.

The purpose and intent of a whistleblower policy is defined by the state legislature in RCW 42.41.010 which states:

It is the policy of the legislature that local government employees should be encouraged to disclose, to the extent not expressly prohibited by law, improper governmental actions of local government officials and employees. The purpose of this chapter is to protect local government employees who make good-faith reports to appropriate governmental bodies and to provide remedies for such individuals who are subjected to retaliation for having made such reports.

The Local Governmental Whistleblower Protection Act requires local governments to adopt such policies by January 1, 1993.

RCW 42.41.030 states in part:

(2) The governing body or chief administrative officer of each local government shall adopt a policy on the appropriate procedures to follow for reporting such information and shall provide information to their employees on the policy. Local governments are encouraged to consult with their employees on the policy.

County officials are aware of this state compliance requirement but to date they have failed to adopt a whistleblower policy. Accordingly, the county is not in compliance with state law.

The effect of the county's failure to act is to discourage employees from disclosing improper governmental actions or activity. Current respondents could potentially be subject to retaliatory actions without proper protection.

We recommend county officials adopt a whistleblower policy in accordance with the Local Government Whistleblower Protection Act as codified in Chapter 42.41 RCW.

KING COUNTY, WASHINGTON
January 1, 1993 Through December 31, 1993

Schedule Of Federal Findings

1. Community Service Division Officials Should Improve Administrative Controls And Enforce Procedures To Ensure Compliance With Various Federal Standards

During our audit of the Community Service Division's (CSD) operations, we noted administrative control weaknesses which resulted in instances of noncompliance in administering the Job Training Partnership Act (JTPA) Summer Youth Program, Title II-B program, and the Year-Round Youth Program, Catalogue of Federal Domestic Assistance (CFDA 17.250).

Procedures in place to monitor and verify program participants' payroll time records are not being followed on a consistent basis. We noted exceptions in timekeeping procedures at seven of the eight sites visited. Of the seventeen individuals selected for testing, we noted thirteen individuals with one or more exceptions.

Exceptions noted include supervisors signing in and out for program participants as well as submitting interim time records in the absence of program participants, participants signing out prior to completion of their shift, participants signing in and out for the day upon their arrival, absence of evidence of supervisory approval on timesheets, and evidence of supervisory approval prior to completion of work periods.

OMB Circular A-87, Attachment B Section B.10.b states in part:

... amounts charged to grant programs for personal services, regardless of whether treated as direct or indirect costs, will be based on payrolls documented and provided in accordance with generally accepted practice of the State, local, or Indian tribal government. Payroll must be supported by time and attendance or equivalent records for individual employees.

In one of the forty files reviewed, we noted income eligibility was calculated incorrectly for a program participant who lived with more than one family member in the preceding six months. This calculation did not appear reasonable because it did not fairly estimate an annualized family income. CSD personnel indicated they had received verbal approval from an employee of their grantor agency for this calculation method. When we contacted another official at the grantor agency, we were informed this calculation method was incorrect. This interpretation was also verified by the State Department of Labor and Industries.

The Job Training Partnership Act states in part:

The participant must meet specific eligibility requirements including meeting the definition of economically disadvantaged . . . as defined by the Office of Management and Budget, and revised annually in accordance with 42 U.S.C. 9902(2).

The weaknesses noted resulted in duplicate payments, individuals paid for time not actually worked, and ineligible participants admitted into the program. Questioned costs related to these issues total \$1,153.88.

We recommend CSD counselors and the job site supervisors actively monitor participants' work hours in accordance with established procedures to ensure hours paid are actually worked and to prevent any duplicate payments from occurring.

We also recommend only one timesheet be prepared per participant and employee training be continued to emphasize the payroll related requirements.

We further recommend that CSD officials request and rely on written interpretations of eligibility criteria from their grantor agency rather than verbal responses. CSD officials should also consult with their grantor on resolving questioned costs.

2. Planning And Community Development Department Officials Should Comply With Office Of Management And Budget (OMB) Circular A-87 Cost Principles

The Planning and Community Development Department (PCDD) is charging unallowable costs to the Community Development Block Grant (CDBG) program. PCDD administers at least six federally funded grant programs. In reviewing expenses charged against these grant programs, we noted administrative salaries and benefits applicable to four of the federal programs being charged to another program, the CDBG program (CFDA 14.218). These costs are not allowable for CDBG because they are not related to this program.

OMB Circular A-87, Attachment A, Section C, states in part:

To be allowable under a grant program, costs must meet the following criteria:

- 1(f) Not be allowable to or included as a cost of any other federally financed program in either the current or prior period.

Administrative salaries and benefits would clearly be allocable or included as a cost of the benefited programs.

The unallowable costs questioned are estimated below. Percentage estimates of time spent administering programs charged to CDBG were obtained. These percentages were then applied to annual salary and benefit information along with any applicable overhead rate. The sum of these calculations reflect our estimate of the questioned costs.

<u>Program Benefited</u>	<u>Salaries</u>	<u>Benefits</u>	<u>Overhead</u>	<u>Total</u>
Emergency Shelter Grant (CFDA 14.231)	\$ 4,197	\$1,111	\$101	\$ 5,409
Shelter Plus Care (CFDA 14.238)	4,328	1,115	-	5,443
Rental Rehabilitation (CFDA 14.230)	2,087	572	51	2,710
Farmers Home Administration (CFDA 10.433)	<u>197</u>	<u>53</u>	<u>-</u>	<u>250</u>
Total Questioned Costs	<u>\$10,809</u>	<u>\$2,851</u>	<u>\$152</u>	<u>\$13,812</u>

PCDD officials were not aware this was a problem because it was consistent with past administrative practice. It is our understanding the grantor agency, the Department of Housing and Urban Development, has not clarified or ruled on the acceptability of this practice.

We recommend PCDD officials only charge expenses to programs which are allowable and allocable to the benefited program.

We also recommend PCDD officials resolve this matter with their grantor agency and take whatever action the grantor deems necessary.

3. County Officials Should Avoid Contracting For Goods Or Services Where Conflicts Of Interest Appear To Exist

The Seattle King County Health Department's Division of Alcohol and Substance Abuse Services (DASAS) entered into a service contract where a conflict of interest exists.

DASAS operates the North Rehabilitation Facility (NRF), a minimum security correctional facility. DASAS entered into a service contract (No. D19232) in December 1993 with South King County Drug and Alcohol Recovery Centers (SKCDARC). The manager of NRF and the Executive Director of SKCDARC are married.

In light of this situation, we requested the King County Board of Ethics to review this matter to determine if a conflict of interest existed. Their concluding opinion (No. 94-7-1100) found this to be a "clear conflict of interest" which violates KCC 3.04.030(B) and 3.04.030(E).

Portions of this contract involve federal funding through grants (CFDA 93.903) from the Department of Health and Human Services. Accordingly, federal procurement guidelines also pertain to this contract. The "Common Rule" for *Administrative Requirements for Grants*, Subpart C, Section __.36 (b) Procurement standards. (3) states in part:

No employee, officer or agent of the grantee or subgrantee shall participate in selection, or in the award or administration of a contract supported by federal funds if a conflict of interest, real or apparent, would be involved. Such a conflict would arise when:

- (i) The employee, officer or agent,
- (ii) Any member of his immediate family,
- (iii) His or her partner, or
- (iv) An organization which employs, or is about to employ, any of the above, has a financial interest in the firm selected for the award.

To the extent permitted by state or local law or regulations, such standards or conduct will provide for penalties, sanctions, or other disciplinary actions for violations of such standards by the grantee's and subgrantee's officers, employees, or agents, or by contractors or their agents. The awarding agency may in regulation provide additional prohibitions relative to real, apparent, or potential conflicts of interest.

Section __.36 (c) Competition. (1) Also states in part:

All procurement transactions will be conducted in a manner providing full and open competition consistent with the standards of __.36. Some of the situations considered to be restrictive of competition include but are not limited to:

- (v) Organizational conflicts of interest.

Contract Section XVI. Conflict of Interest states in part:

Violation of this section shall constitute a substantial breach of this contract and grounds for termination pursuant to Section XI. as well as any other right or remedy provided by this contract or law.

Officials of NRF did not consider this to be a problem because this funding had previously been received and was merely being continued. Since the question had not been raised in the past, it was not considered to be an issue. DASAS has previously contracted with SKCDARC but to our knowledge, the scope of the contract did not specifically identify work at NRF. DASAS officials were also aware of the situation but did not consider it significant.

This conflict of interest and corresponding violation of federal procurement guidelines could jeopardize current and future federal funding requests.

Because services contracted for are being provided, we will not question costs associated with this contract.

We recommend DASAS officials review this particular conflict of interest situation and determine an appropriate course of action in light of the violations of the King County Code, contract provisions, and federal procurement guidelines.

We also recommend the grantor agency be consulted to determine if any penalties or additional prohibitions exist.

4. Division Of Alcohol And Substance Abuse Officials Should Monitor Awards To Subrecipients

King County Health Department, Division of Alcohol and Substance Abuse Services (DASAS) officials are not reviewing subrecipients' audit reports, and requiring necessary corrective action in a timely manner.

DASAS administers the Prevention and Treatment of Substance Abuse Block Grant (CFDA 93.959), along with other federal programs. To accomplish the objectives of this program, DASAS contracts with various organizations on a fee-for-service basis. DASAS officials are responsible for monitoring required audits of subrecipients and ensuring appropriate corrective action is taken when instances of material noncompliance are noted.

DASAS officials allocated \$3,703,906 in federal funds to 24 subrecipients in 1992. Of the 24 subrecipients who received financial assistance, 21 were required to submit audit reports which comply with OMB Circular A-133. As of May 1994, DASAS officials had received audits from 18 subrecipients. These reports were on file for between 6 and 20 months before any review occurred. Reportable conditions and/or material weaknesses were reported in 10 of the 18 subrecipient audit reports. DASAS officials did not begin reviewing these audit reports until we inquired about the status of their subrecipient monitoring in April 1994.

Office of Management and Budget (OMB) Circular A-128 requires recipients of federal funds to establish subrecipient monitoring systems and provides in part:

9. Subrecipients. State or local governments that receive Federal financial assistance and provide \$25,000 or more of it in a fiscal year to a subrecipient shall:
 - a. determine whether . . . subrecipients covered by Circular A-110 Uniform Requirements for Grants To Universities, Hospitals, and Other Nonprofit organizations, have met that [audit] requirement; (Note Circular A-110 was superseded by Circular A-133 effective April 1990)
 - b. determine whether the subrecipient spent Federal assistance funds in accordance with applicable laws and regulations. This may be accomplished by reviewing an audit of the subrecipients made in accordance with this Circular, Circular A-110, or through other means (e.g., program review) if the subrecipient has not yet had such an audit;
 - c. ensure that appropriate corrective action is taken within six months after receipt of the audit report in instances of noncompliance with Federal laws and regulations.

DASAS officials believed their program reviews of subrecipients' provide sufficient and adequate monitoring. They do not appear to understand the requirements for a fiscal audit and the need to review subrecipient audit reports, or ensure subrecipients take appropriate corrective action if required.

Without review of subrecipient fiscal and compliance audits performed in accordance with

OMB Circular A-128 or A-133, DASAS officials have limited assurance subrecipients spent federal funds in accordance with federal laws. In addition, DASAS officials have violated a material compliance requirement of their grantors thus jeopardizing current and future federal funding.

We recommend DASAS officials make timely reviews of subrecipient fiscal and compliance audits, as required, and seek corrective actions where necessary.

We also recommend DASAS officials improve their knowledge and understanding of subrecipient monitoring requirements.